20 February 1948

MEMORANDUM FOR MR. HAWKINS:

Subject: Bosch Patent Situation.

Pursuant to our discussion on 19 February concerning the proper remedy in relation to the Bosch patent situation, we have done a rather hurried research job beginning with the DuPont case in 1911. We did not find that the Court made any special provision as to patents in that case but merely provided for the establishment and continuation of competitive companies by compelling DuPont to equip the new enterprises with ample capital, man them with experts and officials equal to its own, and supply them initially with business. It seems to me that that goes even further than our proposal in the Bosch case which only demands that the divested units have free access to Bosch inventions until such time as they are able to build up their own research departments. Probably we should adopt the provisions of the DuPont case and require Bosch to furnish the divested units with capital, technical and managerial experts, and a share of the existing business.

I believe it would be desirable to review the DuPont case at some length.

A suit in equity was brought by the United States against DuPont and others to restrain the violation of the Sherman Act by the defendants who were alleged to constitute a combination in restraint of, or to monopolize, interstate commerce.

The facts in the case are summarized by the Reporter[1/] as follows:

> In 1872 seven of the largest manufacturers of powder and other explosives in the United States organized what was called the "Gunpowder Trade Association," which, at its meetings and through committees, fixed prices which the constituent members were required to observe under penalty of fines. It also apportioned territory between its members, authorized the cutting of prices in particular localities in order to drive competitors out of the market or force them to come into the association, and apportioned the losses, if any, from such price cutting, between the members. Subsequently other companies were taken into the association, until there were 17 members; and it was continued with some changes in the fundamental agreement, but none in its purposes or methods, until 1902. At that time E.I. du Pont de Nemours & Co., then the most influential member of the association, passed

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1/ (188 Federal Reporter 127, Circuit Court District Delaware, June 21, 1911)

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> under a new management, was reorganized into the E.I. du Pont de Nemours Company, and its controlling stockholders and officers inaugurated the policy of acquiring the assets of other corporations and vesting ownership of their plants and the control of their business in their own company. So successfully was this policy carried out, by the use of the methods of the association, that within five years such company had acquired the stock of and caused to be dissolved 64 corporations engaged in the manufacture of powder and other explosives, and controlled from 64 to 100 per cent of the trade of the United States in the different kinds of explosives sold, and also, directly or through subsidiary corporations, as stockholders, controlled all of the other members of the association which was then dissolved. (Pages 127, 128).

In reply to its own question "what shall be the nature of the decree?" the Court declared:

> Our decree must therefore be one which will forbid future acts violative of the law and compel a dissolution of the combination existing in violation of the law. (Page 154)

The Court further decided that the decree would

> adjudge that the 20 defendants are maintaining a combination in restraint of interstate commerce in powder and other explosives in violation of Section I of the Anti-trust Act, that they have attempted to monopolize and have monopolized a part of such commerce in violation of Section II of that Act, that they shall be enjoined from continuing said combination, and that the combination, shall be dissolved. (Page 154)

The Court afforded the defendants a specified period of time within which to present a plan not repugnant to the law, for the dissolution of the combination. In so doing the Court cautioned:

> It is not to be inferred, however, that this Court will sanction or supervise any new condition that the defendants may re-create, or perform any other act which will be merely administrative in its nature. (Page 155)

Information concerning the implementation of the court's decision appears in the opinion of Circuit Court Judge Woolley in United States v. E.I. Du Pont De Nemours & Co. et al (273 Federal Reporter 869, District Court, Delaware, May 4, 1921). The law in the latter case is not relevant

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to our present interest. The statement of facts, quoted below, indicate, however, the extent to which the Court went in the earlier case in divesting DuPont of its ownership in certain plants for the manufacture of explosives and in creating two entirely new corporations adequately equipped with plants in order to create competitive conditions:

> Shortly stated, the District Court of the United States for the District of Delaware, on June 13, 1912, entered a final decree in an action brought by the United States against forty parties, personal and corporate, for forming and maintaining an unlawful combination in restraint of interstate commerce. United States v. E.I. DuPont de Nemours & Co. et al. (C.C.) 188 Fed. 127. The court, finding a combination and monopoly comprising twenty-seven of the defendants, nine of whom were corporations engaged in the manufacture of explosives, decreed its dissolution. At the time of the decree the DuPont Company owned or by stock ownership controlled over forty plants for the manufacture of dynamite, black blasting powder, black sporting powder, smokeless sporting powder and government smokeless powder, so distributed throughout the United States as to cover every field of consumption and to restrain competition therein. In order to dissolve this combination and take away its control of the industry without at the same time confiscating or destroying the property of its owners, the Court in its plan of dissolution conceived the idea of breaking up the combination and restoring competition by establishing two entirely new explosives corporations adequately equipped with plants strategically distributed with reference to competitive conditions. The theory of distribution which the court evolved for breaking the control of the combination is clear only to those familiar with the explosives industry. In order to understand this quite relevant matter it becomes necessary to digress for a moment.....(Page 870)

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Returning to the decree, the Court, having this basic fact in mind, attacked the defendant combination in its geographical control by causing to be brought into existence the two corporations referred to, one the Hercules Powder Company, the present petitioner, the other the Atlas Powder Company, and by decreeing that of the many widely distributed plants of the combinations three dynamite plants situated respectively in New Jersey, Michigan and California, seven black blasting powder plants situated respectively in New York, Pennsylvania, Ohio, Wisconsin, Kansas and California and two black sporting powder plants situated respectively in Connecticut and New York, should be trans-

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ferred and conveyed to the Hercules Powder Company. It was likewise decreed that conveyance of other plants of the combination, varying in number and location, should be made to the Atlas Powder Company. The Du Pont Company was then permitted to retain its remaining plants which, in the scheme of things, were located in states where it was arranged the two new corporations should enter and become its principal competitors. That these two artificially created competitors should be potential in competition and thereby effective in carrying out the court's schemes of re-establishing competition in the explosives industry, the decree further provided that the Du Pont Company should not only give to them the plants in the number and regions prescribed but it should equip them with ample capital, man them with experts and officials equal to its own, and supply them initially with business.
(Interlineation supplied)
The stock of these corporations was issued to stockholders of the companies out of whose properties they were capitalized, with certain limitations as to voting power, upon the theory that in time--as was later justified by events--stock ownership of the new corporations would pass into other hands. In formulating this plan the Court expressly made the newly created corporations "parties to this cause and subject to the provisions of this decree and bound by the injunctions herein granted," and by another provision of the decree retained jurisdiction of the cause "for the purpose of making such other and further orders and decrees as may become necessary for carrying out the plan herein set forth."
(Page 871)

The Court modified the final decree in the DuPont case to conform with the prayers of the petition of the Hercules Powder Company and with the court's opinion. The Court felt that this was "by the exercise of the usual powers of a Court of Equity to make its enforcement conform to conditions." (Page 873)

In the Hartford Empire[2/] case the Supreme Court permitted the District Court to enjoin the defendants from engaging in the distribution of certain machinery unless the defendants filed with the Court an agreement (a) to license at reasonable royalties and for the life of the patents, any applicant to make and use the machines and methods embodied in inventions covered by patents or patent applications currently owned or controlled by the defendants and (b) to license at reasonable royalties any applicant to make and use machines and methods embodying inventions covered by patents in the future applied for or owned or controlled by the defendants.

2/ Hartford Empire Co. v. U.S., 323 U.S. 386, (1945)

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The District Court had required the license of present patents without royalty or charge of any kind. In respect to present patents the Supreme Court in an opinion rendered by Mr. Justice Roberts ordered the substitution of reasonable royalties for the royalty free phases of the lower court's injunction. However, the Supreme Court's decision was made by only four members. Justices Douglas, Murphy and Jackson took no part in the consideration or decision of the case. Mr. Justice Black dissented in part indicating his view that the trial court should have been permitted to require the licensing of present patents royalty free. Mr. Justice Rutledge dissented in part indicating his view that the provisions of the decree of the trial court were completely justified by the findings and the evidence. In this view, Mr. Justice Black also concurred.

It seems likely, therefore, that a similar case such as the Shoe Machinery case, with Justices Douglas, Murphy and Jackson participating, may well shift the line of decision more toward the position of Justice Black's dissenting opinion. Indeed, Mr. Justice Douglas, with Justices Black and Murphy concurring, said in a dissenting opinion in the Special Equipment case that "It is a mistake...to conceive of a patent as but another form of private property. The patent is a privilege 'conditioned by a public purpose'."

The National Lead case, like the Hartford Empire case, was decided by four justices. In an opinion by Mr. Justice Burton, the Supreme Court upheld a decree which required the defendants to license to any applicant, at reasonable royalties, any and all of their existing titanium patents and those acquired within the next five years. Justices Douglas, Rutledge and Murphy dissented from the Court's failure to require royalty free licensing of the present patents. If Justices Black and Jackson had participated in the case, it is very likely that the licensing of present patents would have been put on the royalty free basis. The desire of the trial courts, who have been closest to the facts and necessities of these cases, clearly is to require royalty free licensing of the present patents. That the official position of the United States Government, through the Antitrust Division, is to demand royalty free licensing is obvious from the cases.

It has been suggested that a provision requiring Bosch to share the fruits of its research with newly created competitors for a period of years would result in Bosch suppressing all such inventions until after the period had run. There is ample precedent, on a reciprocal basis, for requiring inspection of one another's records and research facilities. And, moreover, according to Oppenheim3/ "The conclusion seems generally accepted that keeping patents out of use purposely to retard technological developments or to create monopolistic conditions... is indefensible."

In view of the trend of the Supreme Court as typified in the

3/ "Cases on Federal Antitrust Laws" by S. Chesterfield Oppenheim (West Pub. Co.) 1947.

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Hartford Empire and the National Lead cases, and the increasing tendency of the District Courts to grant royalty free licenses in cases similar to the situation presented by Bosch, we think the Decartelization Branch should seek no less relief than that sought by the U.S. Department of Justice in its Prayer for Relief in the Complaint against the United Shoe Machinery Corporation. That is as follows:

> That, under such conditions and on such terms as the Court may deem appropriate and necessary to dissipate the effects of the unlawful conduct herein alleged and to establish free and unfettered competition in interstate trade and commerce in shoe machinery, the defendant be required to make available to all applicants therefor all patents and inventions relating to shoe machinery now or hereafter owned by the defendant and its subsidiaries and all models, drawings, plans, patterns, and specifications of shoe machinery embodying said patents and inventions; and that the defendant be enjoined from asserting any rights under said patents and inventions until the effects of the unlawful conduct herein alleged have been dissipated. (Interlineation supplied)

Consequently, we reiterate our recommendation that the policy in this respect be as follows:

a. Bosch shall make available to purchasers of all divested units, on a reciprocal and royalty-free basis, all inventions and related technological, theoretical and practical data ("know-how"), whether patented or unpatented, in respect to which Bosch has a right, title or interest as of the date of institution of these proceedings, and all inventions and related "know-how", whether patented or unpatented, in which Bosch may acquire a right, title or interest during a term of years (not to exceed five) following the date of institution of these proceedings.

b. Bosch shall make available to all other applicants, on an unrestricted and non-discriminatory basis, and at clearly reasonable royalty rates, all inventions and related "know-how", whether patented or unpatented, in which Bosch has a right, title or interest as of the date of institution of these proceedings.

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